CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 449)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

2013 FINANCIAL HIGHLIGHTS

	2013 *RMB million*	2012 *RMB million*	*Change* %
Turnover	**9,183.7**	8,801.8	+4.3
Gross receipts[1]	**9,390.6**	8,922.6	+5.2
Consolidated segment results[2]	**1,662.8**	1,413.4	+17.6
Profit for the year	**214.4**	98.5	+117.7
Total assets	**12,049.4**	10,395.7	+15.9
Net assets	**2,969.9**	2,736.2	+8.5
Basic earnings per share *(RMB cents)*	**2.37**	1.09	+117.4
Interim dividends *(HK cents)*	**–**	–	–
Proposed final dividends *(HK cents)*	**–**	–	–
Gross margin[3]	**18.1%**	16.1%	+2.0 percentage points
Net profit margin	**2.3%**	1.1%	+1.2 percentage points

Note 1: Gross receipts represent the total turnover of the Group plus the government subsidies for energy-saving products.

Note 2: Segment results represent the gross profits and government subsidies for energy-saving products by each segment. Consolidated segment results represent the total of all the segments results (including the government subsidies for energy-saving products).

Note 3: For a meaningful comparison of profitability, gross margins for the two financial years are calculated as the percentage of consolidated segment results of operation to turnover.

2013 OPERATION HIGHLIGHTS

	2013	2012	Change
	RMB million	*RMB million*	*%*
PRC sales	**5,067.7**	4,825.9	+5.0
Overseas sales	**4,116.0**	3,975.9	+3.5
Major products type			
Residential air-conditioners	**7,520.5**	7,506.3	+0.2
Commercial air-conditioning products	**740.7**	618.9	+19.7
Air-conditioner parts and components	**676.5**	410.1	+65.0
Other products	**246.0**	266.5	-7.7
Residential air-conditioning products sold *('000 units)*	**4,582**	4,425	+3.5
Commercial air-conditioning products sold *('000 sets)*	**174**	137	+27.0

The board (the "**Board**") of directors (the "**Directors**") of Chigo Holding Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2013 together with the comparative figures for the corresponding period of 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	**2013** *RMB'000*	2012 *RMB'000*
Turnover		**9,183,678**	8,801,814
Cost of goods sold		**(7,727,750)**	(7,509,206)
Gross profit		**1,455,928**	1,292,608
Government subsidies for high energy-saving products	*5*	**206,920**	120,750
Other income		**86,218**	61,756
Selling and distribution costs			
– equity-settled share based payments		**(4,541)**	(5,952)
– other selling and distribution costs		**(721,966)**	(711,664)
Administrative expenses			
– equity-settled share based payments		**(14,736)**	(20,115)
– other administrative expenses		**(412,114)**	(288,040)
Research and development costs		**(84,976)**	(77,001)
Other expenses		**(10,950)**	(3,397)
Other gains and losses		**(18,845)**	(14,449)
Net gain in fair value changes on foreign currency forward contracts		**70,682**	42,168
Net (loss) gain in fair value changes on commodity derivative contracts		**(76,325)**	1,372
Finance costs		**(217,593)**	(261,870)
Profit before taxation	*6*	**257,702**	136,166
Taxation	*7*	**(43,283)**	(37,712)
Profit for the year and total comprehensive income for the year		**214,419**	98,454
Profit for the year and total comprehensive income for the year attributable to:			
– owners of the Company		**199,871**	92,055
– non-controlling interests		**14,548**	6,399
		214,419	98,454
Earnings per share	*8*		
– Basic and diluted		**2.37 cents**	1.09 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment		**1,416,724**	955,813
Land use rights		**220,772**	203,874
Intangible assets		**1,192**	1,461
Prepaid lease payments		**180,993**	170,724
Deposits paid on acquisition of property, plant and equipment		**37,971**	79,061
Derivative financial instruments		**2,215**	–
Deferred tax assets		**12,907**	10,313
		1,872,774	1,421,246
Current assets			
Inventories		**2,294,737**	2,289,096
Trade and other receivables	9	**5,925,896**	4,755,882
Land use rights		**5,378**	5,026
Prepaid lease payments		**14,445**	11,055
Taxation recoverable		**10,523**	10,809
Derivative financial instruments		**57,262**	31,856
Pledged bank deposits		**1,111,881**	946,887
Bank balances and cash		**756,508**	923,860
		10,176,630	8,974,471
Current liabilities			
Trade and other payables	10	**4,096,955**	4,171,585
Warranty provision		**26,862**	30,606
Taxation payable		**134,647**	85,702
Borrowings related to bills discounted with recourse		**1,416,856**	989,393
Short-term debentures		**–**	805,800
Short-term bank loans		**3,018,404**	1,521,132
		8,693,724	7,604,218
Net current assets		**1,482,906**	1,370,253
Total assets less current liabilities		**3,355,680**	2,791,499
Non-current liabilities			
Government grants		**38,768**	40,056
Long-term debentures		**154,600**	–
Long-term bank loans		**172,219**	–
Deferred tax liabilities		**20,180**	15,226
		385,767	55,282
Net assets		**2,969,913**	2,736,217
Capital and reserves			
Share capital	11	**71,906**	71,906
Reserves		**2,853,169**	2,634,021
Equity attributable to owners of the Company		**2,925,075**	2,705,927
Non-controlling interests		**44,838**	30,290
Total equity		**2,969,913**	2,736,217

NOTES

1. GENERAL

The Company was incorporated and registered as an exempted company in the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report. Its immediate and ultimate holding company is Chigo Group Holding Limited (the "Chigo Group"), a company which is incorporated in the British Virgin Islands. The ultimate controlling party of Chigo Group is Mr. Li Xinghao.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
Amendments to HKAS 1	Presentation of items of other comprehensive income
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRS 7 Disclosures – Offsetting financial assets and financial liabilities

The Group has applied the amendments to HKFRS 7 "Disclosures – Offsetting financial assets and financial liabilities" for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

a) recognised financial instruments that are set off in accordance with HKAS 32 "Financial instruments: Presentation"; and

b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The amendments to HKFRS 7 have been applied retrospectively. The application of the amendments has had no material impact on the amounts reported in the Group's consolidated financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 "Consolidated financial statements", HKFRS 11 "Joint arrangements", HKFRS 12 "Disclosure of interests in other entities", HKAS 27 (as revised in 2011) "Separate financial statements" and HKAS 28 (as revised in 2011) "Investments in associates and joint ventures", together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of HKFRS 10 and HKFRS 12 are set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) – INT 12 "Consolidation – Special purpose entities". HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

HKFRS 13 Fair value measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle[2]
HKFRS 9	Financial instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
HKFRS 14	Regulatory deferral accounts[5]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK(IFRIC) – INT 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 July 2014.
[3] Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
[4] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
[5] Effective for annual periods beginning on or after 1 January 2016.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The directors of the Company anticipate that the adoption of these new and revised HKFRSs will have no material impact on the amounts reported in the Group's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values. The consolidated financial statements have also been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. SEGMENT INFORMATION

Segment information has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), the chief executive officer ("CEO"), for the purpose of allocating resources to segments and assessing their performance. The CODM reviews the revenue and result by geographical location of customers for performance assessment and resource allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments for the year.

	Turnover		Results	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China (the "PRC")	**5,067,659**	4,825,947	**1,136,480**	844,853
Asia (excluding PRC)	**1,944,879**	2,064,919	**223,540**	271,659
Americas	**1,048,492**	920,828	**152,718**	156,856
Africa	**567,893**	458,079	**68,881**	67,098
Europe	**542,653**	525,406	**77,617**	70,956
Oceania	**12,102**	6,635	**3,612**	1,936
	9,183,678	8,801,814	**1,662,848**	1,413,358
Unallocated other income			**86,218**	63,128
Unallocated expenses			**(826,160)**	(738,788)
Staff costs included in selling and distribution costs and administrative expenses			**(417,964)**	(363,334)
Charitable donations			**(1,355)**	(1,150)
Allowance for doubtful debts			**(22,649)**	(18,718)
Net gain in fair value changes on foreign currency forward contracts			**70,682**	42,168
Net (loss) gain in fair value changes on commodity derivative contracts			**(76,325)**	1,372
Finance costs			**(217,593)**	(261,870)
Profit before taxation			**257,702**	136,166

Turnover represents the fair value of the consideration received and receivable for goods sold by the Group to outside customers during the year.

Segment results represent the gross profits and government subsidies for high energy-saving products by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Other segment information

Geographical information

The Group's operations are located in PRC (country of domicile).

The Group's revenue from external customers and information about its non-current assets other than deferred tax assets by geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets other than deferred tax assets**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**5,067,659**	4,825,947	**1,859,867**	1,410,933
Asia (excluding PRC)	**1,944,879**	2,064,919	**–**	–
Americas	**1,048,492**	920,828	**–**	–
Africa	**567,893**	458,079	**–**	–
Europe	**542,653**	525,406	**–**	–
Oceania	**12,102**	6,635	**–**	–
	9,183,678	8,801,814	**1,859,867**	1,410,933

The management considered that the cost to develop the revenue by individual countries other than PRC and Americas are excessive and revenues other than "PRC" and "Americas" above attributed to each individual country are not material.

Revenue from major products

The following is an analysis of the Group's revenue from major products:

	2013	2012
	RMB'000	*RMB'000*
Residential air-conditioners		
– split type	**7,161,766**	7,193,119
– window type	**325,616**	280,517
– portable type	**33,141**	32,748
	7,520,523	7,506,384
Commercial air-conditioners	**740,716**	618,872
Air-conditioners' parts and components	**676,472**	410,068
Others	**245,967**	266,490
	9,183,678	8,801,814

Information about major customers

For the year ended 31 December 2013 and 31 December 2012, none of the Group's customer had individually accounted for more than 10% of the Group's total revenue.

Analysis of capital additions, depreciation, amortisation of intangible assets and operating lease rentals on land use rights by location of customers were not presented as in the opinion of the directors, there is no appropriate basis in allocating the property, plant and equipment, intangible assets and land use rights by location of customers.

The goods sold to various geographical market were principally produced from the same production facilities situated in the PRC. Moreover, all of the Group's assets and liabilities at 31 December 2013 and 31 December 2012 were located in the PRC.

5. GOVERNMENT SUBSIDIES FOR HIGH ENERGY-SAVING PRODUCTS

In order to promote the high energy-saving products, the PRC government announced the "Promotion of energy efficient appliances scheme" (the "Energy-Saving Scheme") on 18 May 2009. Under the Energy-Saving Scheme, manufacturing entities are eligible for government subsidies on their manufactured high energy-saving electrical products upon reporting of its sales to the PRC government authority. The Energy-Saving Scheme was expired on 1 June 2011. On 25 May 2012, the PRC government announced a new Energy-Saving Scheme which is effective for the period form 1 June 2012 to 31 May 2013 (the "New Energy-Saving Scheme").

During the year, the Group was entitled to these government subsidies of RMB27,015,000 (2012: RMB116,740,000) in respect of high energy-saving products sold under the Energy-Saving Scheme and RMB179,905,000 (2012: RMB4,010,000) in respect of high energy-saving products sold under the New Energy-Saving Scheme.

6. PROFIT BEFORE TAXATION

	2013	2012
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**4,403**	3,906
Other staff's retirement benefits scheme contributions	**75,813**	37,830
Other staff's equity-settled share based payments	**16,727**	24,006
Other staff costs	**713,522**	609,621
	810,465	675,363
Less: Staff costs included in research and development costs	**(52,291)**	(43,940)
	758,174	631,423
Allowance for doubtful debts included in other gains and losses	**22,649**	18,718
Amortisation of intangible assets included in administrative expenses	**337**	369
Auditor's remuneration	**2,830**	2,173
Cost of inventories recognised as an expense including write down on inventories of RMB10,447,000 (2012: RMB22,887,000)	**7,701,661**	7,486,467
Depreciation of property, plant and equipment	**111,090**	102,961
Net exchange losses included in other gains and losses	**5,931**	3,275
Operating lease rentals in respect of		
– land use rights	**5,270**	5,026
– rented premises	**39,877**	36,731
Provision for warranty included in cost of goods sold	**26,089**	22,739
Release of prepaid lease payments	**16,048**	11,261
Write-off/loss on disposal of property, plant and equipment	**–**	249
and after crediting:		
Amortisation of government grants	**1,288**	1,288
Government subsidies included in other income*	**6,866**	4,655
Interest income	**50,608**	34,405
Reversal of doubtful debts included in other gains and losses	**9,735**	7,544
Gain on disposal of property, plant and equipment	**25**	–
Sales of scrap materials	**1,475**	8,491

* The government subsidies provided by the PRC government to the Group were paid as an incentive for research and development on new environmental friendly products. There are no conditions and contingencies attached to the receipt of the government subsidies.

7. TAXATION

	2013	2012
	RMB'000	*RMB'000*
The charge comprises:		
PRC income tax		
– current year	**(40,923)**	(33,088)
Deferred taxation	**(2,360)**	(4,624)
	(43,283)	(37,712)

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. In addition, the income tax rate for both domestic and foreign investment enterprise was unified at 25% effective from 1 January 2008 (Order of the President [2007] No. 63) except that certain PRC subsidiaries were officially endorsed as High-New Technology Enterprise and eligible to preferential Enterprise Income Tax ("EIT") rate of 15% during the year ended 31 December 2013.

According to a joint circular of Ministry of Finance and the State Administration of Taxation of the PRC, Cai Shui [2008] No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC subsidiary, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules. Deferred tax liability on the undistributed profits earned during the year has been accrued at the tax rate of 10% on the expected dividend stream of 30% of the relevant subsidiary which is determined by the directors of the Company.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings for the year attributable to owners of the Company of RMB199,871,000 (2012: RMB92,055,000) and on the weighted average number of 8,434,178,000 (2012: 8,434,178,000) shares in issue during the year.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options because the exercise price of those share options was higher than the average market price for shares during both years ended 31 December 2013 and 31 December 2012.

9. TRADE AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**3,063,598**	2,857,113
Bills receivables	**2,609,731**	1,673,590
	5,673,329	4,530,703
Deposits paid to suppliers	**172,988**	145,484
Prepayments	**1,474**	1,922
Advances to staff	**19,248**	19,072
Value-added tax recoverable	**28,958**	44,695
Other receivables	**29,899**	14,006
	5,925,896	4,755,882

At the end of the reporting date, bills receivables outstanding amounted to RMB1,416,856,000 (2012: RMB989,393,000) have been discounted to certain banks. The Group continues to present the discounted bills as bills receivables until maturity.

Payment terms with customers are mainly on credit. Invoices are normally receivable from 30 days to 180 days from date of issuance, while invoices to long-established customers are normally payable within 210 days. The following is an aged analysis of trade and bills receivables presented based on the invoice dates at the end of the reporting period which approximated the respective revenue recognition dates.

	2013	2012
	RMB'000	*RMB'000*
Age		
0 – 30 days	**1,016,746**	2,015,737
31 – 60 days	**1,008,698**	479,221
61 – 90 days	**674,014**	430,879
91 – 180 days	**2,713,480**	1,579,846
181 – 365 days	**204,154**	25,020
Over 1 year	**56,237**	–
	5,673,329	4,530,703

Include in the Group's trade receivable balances are trade debtors with aggregate carrying amount of RMB115,352,000 (2012: RMB544,203,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date of credit was initially granted.

Aging of trade receivables which are past due but not impaired is as follows:

	2013	2012
	RMB'000	*RMB'000*
Age		
31 – 60 days	**6,993**	8,123
61 – 90 days	**35,733**	33,557
91 – 180 days	**10,700**	486,857
181 – 365 days	**5,689**	15,666
Over 1 year	**56,237**	–
	115,352	544,203

The Group does not hold any collateral over these balances. The average age of these receivables is 139 days (2012: 120 days).

In determining the recoverability of the trade receivables, the Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

Movement in the allowance for doubtful debts is as follows:

	2013	2012
	RMB'000	*RMB'000*
At 1 January	**22,424**	11,250
Allowances recognised on receivables	**22,649**	18,718
Amounts recovered during the year	**(9,735)**	(7,544)
At 31 December	**35,338**	22,424

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB26,008,000 (2012: RMB22,424,000) which have been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

Included in trade and other receivables are the following amounts denominated in currency other than the functional currency of the relevant group companies:

	2013	2012
	RMB'000	*RMB'000*
USD	**732,788**	506,592
Euro	**39,285**	2,223

Transfers of financial assets

The following were the Group's financial assets as at 31 December 2013 and 2012 that were transferred to banks by discounting those receivables on a full recourse basis. If the bills receivables are not paid out at maturity, the Group is required to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks with full recourse	
	2013	2012
	RMB'000	*RMB'000*
Carrying amount of transferred assets included in trade receivables	**1,426,843**	994,928
Carrying amount of associated liabilities	**1,416,856**	989,393

10. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**762,452**	612,675
Bills payables	**2,675,546**	3,040,022
	3,437,998	3,652,697
Customers' deposits	**212,634**	250,352
Payroll and welfare payables	**58,957**	40,360
Other tax payables	**51,033**	27,182
Accruals	**118,624**	57,593
Other payables	**217,709**	143,401
	4,096,955	4,171,585

The Group normally receives credit terms of 30 days to 180 days from its suppliers. The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period.

	2013	2012
	RMB'000	*RMB'000*
Age		
0 – 90 days	**2,338,191**	2,363,569
91 – 180 days	**1,078,485**	1,274,007
181 – 365 days	**8,053**	7,148
1 – 2 years	**13,269**	7,973
	3,437,998	3,652,697

11. SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares	**Amount**	**Number of shares**	**Amount**
	'000	*HKD'000*	*'000*	*HKD'000*
– at 1 January 2012, 31 December 2012 and 2013	50,000,000	500,000	8,434,178	84,341

	RMB'000
Shown in the consolidated statement of financial position at – 31 December 2013 and 2012	71,906

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the design, development, manufacture and sale of air-conditioning products. During the year ended 31 December 2013, the turnover of the Group was mainly derived from the sales of air-conditioners and air-conditioner parts and components. The Group's products were sold both in the PRC and overseas markets.

At the beginning of 2013, the management had set targets of enhancing operating efficiency and maintaining a steady growth in sales and volume. The Group followed the strategic plans and achieved turnover growth and significantly improved its profitability in 2013.

Domestic demand for residential air-conditioning products was weak in the first half of 2013 because of the sluggish economic growth and the cooler and wetter weather in China. It was difficult for the domestic sales of the Group and a decrease in the PRC sales was recorded due mainly to the drop in sales volume. However, when entering into the second half of 2013, there were signs of positive development in the air-conditioning industry. The Group's sales team responded quickly and domestic sales rebounded substantially in the second half of 2013. As a result, for 2013, PRC full-year sales went up. More importantly, there were improvements in operating efficiency and profit margin in the Group's PRC business segment. While the prices of major raw materials dropped, the Group was able to keep the average selling prices of its domestic products stable in 2013 as compared to those of the same period in 2012 and, as a result, the segment results of the PRC region increased substantially and the profit margins of domestic products continued to improve for the year ended 31 December 2013.

The last government subsidy scheme for high energy-saving products was launched in June 2012 and expired at the end of May 2013. During the year ended 31 December 2013, the Group received government subsidies relating to high energy-saving products sold in the current and prior periods up to RMB206.9 million. Following the expiry of the subsidy policy for energy-saving air-conditioning products in China in mid-2013, the Group, through adjusting the product mix, effectively improved the average sales price and the gross margin of its air-conditioning products sold in China.

The Group maintained upward momentum in its exports in 2013, both overseas sales volume and sales increased during the year under review. However, the increases in overseas sales and its gross margin were partly offset by the drop in the average selling prices of the products sold overseas as a result of the appreciation of Renminbi and decrease in raw material prices. The Group dealt with the negative effect on overseas sales caused by translation of foreign exchange through entering into certain foreign currency forward contracts for hedging purpose in the year ended 31 December 2013.

The commercial unit of the Group also achieved good performance in 2013. Sales and profit margin of our commercial air-conditioning products kept rising and recorded impressive growths during the reporting period. As the gross margin of the commercial air-conditioning products are higher, the Group's overall profitability would be further improved with the continued increase of commercial sales.

In 2013, prices of our major raw materials were very volatile, and among which copper accounted for a high portion of the Group's cost of sales. Price of copper went up in the first quarter of 2013 and dropped substantially in the subsequent quarter. Though drop in prices of major raw materials generally benefit the Group in lowering production costs, high volatility and a substantial decrease in copper price in the first of 2013 caused a significant loss to the Group under certain copper forward contracts. In order to hedge against price increase in copper, the Group entered into certain copper forward contracts at the beginning of 2013. As management kept monitoring the market prices and trend of copper price, when the copper price continued to plummet towards the end of the first half of 2013, the management closed the position of all the outstanding copper forward contracts early upon a temporary rebound of copper prices to cut further possible losses. As at the year end, the Group did not have any outstanding unsettled copper forward contracts. The management will closely monitor the trend of the prices of the Group's major raw materials and take stringent measures in mitigating risks in relation to price fluctuation of raw material.

As part of its future business plan, the Group had completed an acquisition of 100% interest in a company holding a new copper production facility in Sihui City, Guangdong Province, the PRC from the controlling shareholder in April 2013. In addition, a new production facility at the headquarters for compressors, a core component of air-conditioner, was completed during the year. As at the end of 2013, these two new production facilities had yet to commence operation and are set to begin trial production in the first half of 2014. The management expects that the Group will have steady supply of self-manufactured parts and components for business expansion. In light of the above, the competitiveness and profitability of the Group are expected to be further enhanced in the coming years.

Operation Review

Sales from major product groups and gross margins

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Residential air-conditioners						
– split type	**7,161.8**	**78.0**	7,193.1	81.7	-31.3	-0.4
– window type	**325.6**	**3.5**	280.5	3.2	+45.1	+16.1
– portable type	**33.1**	**0.4**	32.7	0.4	+0.4	+1.2
	7,520.5	**81.9**	7,506.3	85.3	+14.2	+0.2
Commercial air-conditioners	**740.7**	**8.0**	618.9	7.0	+121.8	+19.7
Air-conditioners parts and components	**676.5**	**7.4**	410.1	4.7	+266.4	+65.0
Others	**246.0**	**2.7**	266.5	3.0	-20.5	-7.7
	9,183.7	**100.0**	8,801.8	100.0	+381.9	+4.3

Residential air-conditioning products are the major source of income for the Group and accounted for 81.9% of the total turnover. Sales of residential air-conditioners increased by 0.2% during the year ended 31 December 2013, principally because of the increases in number of units sold which was partly offset by the decrease in the average sales prices of air-conditioning products during the year. As the sales volume increased remarkably and outweighed the slight drop in average sales prices, turnover derived from commercial air-conditioners rose by 19.7% and contributed 8.0% of the total turnover to the Group during the year. Sales of air-conditioner parts and components continued to increase and recorded a significant growth of 65.0% during the year, principally due to increased sales to external manufacturers in the form of knockdown parts. Sales of the other products decreased further by 7.7% in 2013 as the Group outsourced some of the sideline production to external manufacturers to pool its resources and improve efficiency.

As a result of the effective corporate strategy, the gross margin (including government subsidies for energy-saving products) of residential air-conditioning products improved sharply to 17.6% for the reporting period from 15.5% in 2012.

The Group's commercial unit continued to elevate its gross margin of the commercial air-conditioning products from 22.0% in 2012 to 25.2% during the year.

Sales from brands and original equipment manufacturing ("OEM")

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC sales						
CHIGO brand	**4,656.5**	**50.7**	4,455.4	50.6	+201.1	+4.5
HYUNDAI brand	**92.3**	**1.0**	65.0	0.7	+27.3	+42.0
Air-conditioner parts and components	**75.9**	**0.8**	52.7	0.6	+23.2	+44.0
Other products	**243.0**	**2.7**	252.8	2.9	-9.8	-3.9
	5,067.7	**55.2**	4,825.9	54.8	+241.8	+5.0
Overseas sales						
CHIGO brand	**641.0**	**7.0**	616.0	7.0	+25.0	+4.1
OEM	**2,871.4**	**31.3**	2,988.8	34.0	-117.4	-3.9
Air-conditioner parts and components	**600.6**	**6.5**	357.4	4.1	+243.2	+68.0
Other products	**3.0**	**0.0**	13.7	0.1	-10.7	-78.1
	4,116.0	**44.8**	3,975.9	45.2	+140.1	+3.5
	9,183.7	**100.0**	8,801.8	100.0	+381.9	+4.3

Most of the air-conditioning products sold in China were under CHIGO brand which increased by 4.5% and accounted for 98.2% of the Group's PRC sales during the year ended 31 December 2013. Sales of parts and components in China increased by 44.0% due to an increase in knockdown sales. As the Group outsourced some of its sideline production and the other operating income decreased, sales of other products dropped by 3.9% during the reporting period.

The Group further enhanced promotion of its own brand in overseas markets, export under CHIGO brand kept increasing and recorded a 4.1% growth this year. Among the Group's overseas sales in 2013, CHIGO brand and OEM accounted for approximately 30.2% and 69.8% of the total overseas sales respectively (2012: 24.8% and 75.2% of the total overseas sales respectively).

Sales and distribution

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
PRC						
Household appliances retail chain operators	**1,356.3**	**14.8**	1,214.8	13.8	+141.5	+11.6
Regional distributors	**3,711.4**	**40.4**	3,611.1	41.0	+100.3	+2.8
PRC Total	**5,067.7**	**55.2**	4,825.9	54.8	+241.8	+5.0
Overseas						
Regional distributors	**1,244.6**	**13.5**	987.1	11.2	+257.5	+26.1
OEM manufacturers	**2,871.4**	**31.3**	2,988.8	34.0	-117.4	-3.9
Overseas Total	**4,116.0**	**44.8**	3,975.9	45.2	+140.1	+3.5
Total Turnover	**9,183.7**	**100.0**	8,801.8	100.0	+381.9	+4.3

During the year ended 31 December 2013, the Group's PRC sales from household appliances retail chain operators rose at a faster pace of 11.6% and increased contribution to 26.8% of the Group's PRC sales (2012: 25.2% of the total PRC sales). Sales generated from regional distributors increased by 2.8% and accounted for 73.2% of the PRC sales in 2013 (2012: 74.8% of the total PRC sales).

For the overseas markets, as the Group strengthened its own brand sales during the reporting period, sales from OEM customers dropped slightly by 3.9% and sales from overseas regional distributors increased sharply by 26.1%. As such, approximately 69.8% and 30.2% (2012: 75.2% and 24.8% of the total overseas sales respecively) of the overseas sales were distributed by OEM manufacturers and overseas regional distributors respectively for the year ended 31 December 2013.

Units sold volume and average sales prices

	Year ended 31 December		
	2013	2012	Change %
Residential air-conditioning products sold *('000 units)*	**4,582**	4,425	+3.5
Commercial air-conditioning products sold *('000 sets)*	**174**	137	+27.0
Average sales price – residential air-conditioning product (including government subsidies for energy-saving products) (per unit)	**RMB1,686**	RMB1,724	-2.2
Average sales price – commercial air-conditioning product (per set)	**RMB4,249**	RMB4,523	-6.1

During the year ended 31 December 2013, the Group kept a steady growth of 3.5% in sales volume of residential air-conditioning products. The Group saw strong sales in commercial air-conditioning products and increased its sales volume by 27.0% in 2013. In total, the Group sold more than 4.7 million units/sets of air-conditioners within the reporting period.

Due to decreases in the prices of raw materials, the average cost of sales of air-conditioning products declined during the year ended 31 December 2013. Following the expiry of the subsidy policy for energy-saving air-conditioning products in China in mid-2013, the Group, through adjusting the product mix, effectively improved the average sales price of its air-conditioning products. As a result, the average sales prices of residential air-conditioning products dropped slightly by 2.2%. The average sales prices of commercial air-conditioning products went down by 6.1% during the year mainly due to (i) higher proportion of sales of small and medium-sized air conditioner models in 2013; and (ii) the downward adjustment of sales prices in view of the decrease in cost of sales.

Breakdown of cost of goods sold

During the two years ended 31 December 2013, breakdown of the Group's total cost of goods was shown as follows:

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Cost of goods sold**	*RMB million*	% of Cost of goods sold	*RMB million*	Change %
Raw materials, parts and components:						
Compressors	**1,652.8**	**21.4**	1,890.6	25.2	-237.8	-12.6
Copper	**2,110.9**	**27.3**	2,108.1	28.1	+2.8	+0.1
Plastic chips	**578.0**	**7.5**	522.9	6.9	+55.1	+10.5
Aluminum	**469.7**	**6.1**	469.8	6.3	-0.1	-0.0
Steel plates	**520.6**	**6.7**	458.4	6.1	+62.2	+13.6
Others *(note)*	**1,639.5**	**21.2**	1,368.5	18.2	+271.0	+19.8
Total	**6,971.5**	**90.2**	6,818.3	90.8	+153.2	+2.2
Direct labour cost	**340.7**	**4.4**	287.7	3.8	+53.0	+18.4
Utilities	**65.3**	**0.8**	64.4	0.9	+0.9	+1.4
Production cost	**214.8**	**2.8**	206.0	2.7	+8.8	+4.3
Others	**135.5**	**1.8**	132.8	1.8	+2.7	+2.0
Total cost of goods sold	**7,727.8**	**100.0**	7,509.2	100.0	+218.6	+2.9

Note: Others include many other miscellaneous parts and components used in production, such as electronic controller systems, refrigerant, power cord, capacitors and other small parts.

During the year ended 31 December 2013, the Group's turnover increased faster than the cost of goods sold. Among the raw materials, parts and components, more copper had been used as the Group's sales volume increased and the cost of copper recorded an increase of 0.1% as compared to 2012 despite the substantial drop in the market price of copper in the first half of 2013.

Due to the rising trend of labour costs in China, direct labour cost increased at a faster rate compared to the other cost components by 18.4% during the year ended 31 December 2013.

Financial Review

Turnover

	Year ended 31 December					
	2013		2012		Change	
	RMB million	**% of Turnover**	*RMB million*	% of Turnover	*RMB million*	Change %
Geographic region						
PRC sales	**5,067.7**	**55.2**	4,825.9	54.8	+241.8	+5.0
Asia (excluding PRC)	**1,944.9**	**21.2**	2,064.9	23.5	-120.0	-5.8
Americas	**1,048.5**	**11.4**	920.8	10.4	+127.7	+13.9
Africa	**567.9**	**6.2**	458.1	5.2	+109.8	+24.0
Europe	**542.6**	**5.9**	525.4	6.0	+17.2	+3.3
Oceania	**12.1**	**0.1**	6.7	0.1	+5.4	+80.6
Overseas sales	**4,116.0**	**44.8**	3,975.9	45.2	+140.1	+3.5
Total turnover	**9,183.7**	**100.0**	8,801.8	100.0	+381.9	+4.3

During the year ended 31 December 2013, the Group's total turnover was approximately RMB9,183.7 million (2012: RMB8,801.8 million) and increased by RMB381.9 million, or 4.3% as compared to the corresponding period in 2012. The increase was principally due to the increase in sales volume of air-conditioning products together with strong sales growth in parts and components during the year.

As the subsidies for the energy-saving products expired at the end of May 2013, the Group received RMB206.9 million (2012: RMB120.8 million) as part of the receipts in relation to sales of products. Gross receipts (sum of turnover and government subsidies for high energy-saving products) received by the Group in relation to its principal operation amounting to RMB9,390.6 million (2012: RMB8,922.6 million) and increased by 5.2% or RMB468.0 million as compared to 2012.

PRC Sales

Due to the domestic economic slowdown and the unfavourable weather factor, the results of PRC sales in the first half of 2013 were far from satisfactory. However, the Group's sales team responded quickly and domestic sales rebounded substantially in the second half of 2013. For the year ended 31 December 2013, the Group's PRC sales increased by RMB241.8 million or 5.0% to RMB5,067.7 million (2012: RMB4,825.9 million). During the year ended 31 December 2013, domestic sales remained the main source of revenue of the Group and amounted to 55.2% of the total turnover (2012: 54.8%).

Overseas Sales

The Group's overseas sales continued to perform well and reached RMB4,116.0 million in 2013 (2012: RMB3,975.9 million). The growth in overseas sales amounting to RMB140.1 million representing a year-on-year increase of 3.5%.

The increase in the Group's overseas sales in 2013 was mainly contributed by the increases of 13.9% and 24.0% in sales in the Americas and Africa respectively. Among the overseas markets of the Group, Asia (excluding PRC) and Americas are two major markets which accounted for 21.2% and 11.4% (2012: 23.5% and 10.4% respectively) of the Group's turnover during the year ended 31 December 2013.

Since the Group's domestic sales had increased at a faster rate, overseas sales dropped slightly to 44.8% (2012: 45.2%) of the Group's total turnover for the year ended 31 December 2013.

Cost of goods sold

The Group recorded growth in turnover and cost of sales increased at a slower pace in 2013. Cost of goods sold increased to RMB7,727.8 million (2012: RMB7,509.2 million), an increase of RMB218.6 million or 2.9% as compared to that of 2012. The increase in cost of goods sold was mainly caused by the increases in the costs of other parts and components and installation cost during the year ended 31 December 2013.

Gross profit

The Group recorded a gross profit of RMB1,455.9 million for the year ended 31 December 2013 (2012: RMB1,292.6 million) which increased by RMB163.3 million or 12.6% as compared to 2012. The Group also received government subsidy for energy-saving products sales under the "Promotion of energy efficient appliances scheme" which increased to RMB206.9 million (2012: RMB120.8 million) for the year ended 31 December 2013. As a result, consolidated segment results of operation (sum of gross profit and the government subsidies for energy-saving products) for the year ended 31 December 2013 totaled RMB1,662.8 million (2012: RMB1,413.4 million) representing an increase of RMB249.4 million or 17.6% from that of 2012.

As the consolidated segment results of operation increased, the Group's gross margin (calculated as consolidated segment results to turnover) further improved from 16.1% in 2012 to 18.1% for the year ended 31 December 2013 accordingly.

As the average cost of sales of air-conditioning products dropped during the reporting period, the Group's gross margin of PRC sales increased to 22.4% (2012: 17.5%) in 2013. Because of the gradual depreciation of US dollars against Renminbi during the year, amount of overseas sales which denominated in US dollars was adversely affected when translated into the Group's functional currency, Renminbi. As such, the gross margin of overseas sales of the Group decreased to 12.8% (2012: 14.3%) in 2013. Among the overseas sales regions, Americas and Oceania contributed most to the profitability of the Group and achieved gross margins of 14.6% and 29.8% respectively in 2013.

Government subsidies for high energy-saving products

For the year ended 31 December 2013, the Group received the government subsidies for high energy-saving products of RMB206.9 million (2012: RMB120.8 million). These government subsidies were part of the gross receipts received by the Group in relation to its principal operation.

Other income

Other income was RMB86.2 million (2012: RMB61.8 million) and increased by RMB24.4 million or 39.5% including mainly the interest income and other operating income.

Selling and distribution costs

The Group's selling and distribution costs increased to RMB722.0 million (2012: RMB711.7 million), an increase of RMB10.3 million or 1.4% for the year ended 31 December 2013. The increase was mainly due to (i) the increases in salary and allowance of sales personnel; and (ii) the new recycling expenses on waste home appliances during the year.

Administrative expenses

Administrative expenses of the Group increased significantly by RMB124.1 million or 43.1% to RMB412.1 million (2012: RMB288.0 million) for the year ended 31 December 2013. The increase in administrative expenses was primarily due to the increases in (i) salaries, benefits and social insurance charges relating to administrative staff; (ii) inspection and certification fees; and (iii) amortization of lease payment during the year.

Equity-settled share based payments

The Group recorded an equity-settled share based payments of RMB19.3 million (2012: RMB26.1 million) for the year ended 31 December 2013 in relation to the share options granted by the Company to certain employees and customers in 2011. This non-cash expense decreased by RMB6.8 million or 26.1% during the year.

Research and development costs

Research and development ("**R&D**") costs increased to RMB85.0 million (2012: RMB77.0 million) by 10.4% or RMB8 million during the year. The increase was attributed to the increases in the R&D staff costs as the Group had strengthened its R&D team and set up new R&D units in the production facilities for the core components.

Other expenses

Other expenses was mainly non-operating expenses which increased by RMB7.6 million or 223.5% during the year ended 31 December 2013 and amounted to RMB11.0 million.

Other gains and losses

Other gains and losses increased by RMB4.4 million or 30.6% to RMB18.8 million (2012: RMB14.4 million) in 2013. The increase was mainly due to the adjustments of realized foreign exchange gains during the year.

Net loss in fair value changes on commodity derivative contracts

Copper is one of the major raw materials required by the Group for the production of the Group's air-conditioners which accounted for about 27.3% of the cost of goods sold of the Group for the year ended 31 December 2013. As such, the Group is susceptible to fluctuations in the prices and supply of copper. In view of this, the Group entered into certain copper futures contracts to hedge against the cost of copper in the past. During the first six months of 2013, the price of copper futures contracts fluctuated significantly and dropped substantially in the range of 16% to 18% (note) during the period.

Since the price volatility of the copper forward contracts was higher than that of the average copper costs incurred by and the actual consumption of copper of the Group, the Group recognized a net realised loss on copper forward contracts of approximately RMB76.3 million in 2013 (2012: nil). As of 31 December 2013, the Group had settled all the copper forward contracts and no copper forward contracts was outstanding.

Note: calculated based on the daily closing prices of copper futures contracts of various months published on the website of Shanghai Futures Exchange (http://www.shfe.com.cn/).

Net gain in fair value changes of derivative financial instruments

The Group recorded a net gain of approximately RMB70.7 million (2012: RMB42.2 million) in fair value changes of derivative financial instruments relating to the foreign currency forward contracts and derivative financial instruments entered into by the Group for the year ended 31 December 2013 as exchange rate of RMB against USD appreciated favourably to the Group.

Finance costs

The Group financed its working capital requirement through obtaining bank loans, discounting part of its bills receivable from customers to financial institutes and issuing corporate debentures. During the reporting period, a major subsidiary of the Company had issued medium-term notes in an aggregate principal amount of RMB150 million for general working purposes. As at the end of 2013, the Group had outstanding debentures (including accrued interests) of RMB154.6 million and bank loans of RMB3,190.6 million. Through effective rearrangement of combination of bank loans obtained in the PRC and Hong Kong, the Group was able to lower its cost of funding. The finance costs of the Group decreased by RMB44.3 million or 16.9% to RMB217.6 million (2012: RMB261.9 million) for the year ended 31 December 2013.

Taxation

Due to the increase in profit before taxation which was offset by the decrease in deferred tax charge, the Group's tax charge for the year ended 31 December 2013 increased by RMB5.6 million or 14.9% to RMB43.3 million (2012: RMB37.7 million).

Profit for the year and total comprehensive income for the year

As a result of the foregoing, the Group recorded a profit of RMB214.4 million for the year ended 31 December 2013 (2012: RMB98.5 million), representing an increase of RMB115.9 million or 117.7% as compared to the corresponding period in 2012. Since net profit of the Group had increased in the reporting period, the Group's net margin improved to 2.3% (2012: 1.1%) for the year ended 31 December 2013.

Financial position

	As at 31 December			
	2013	2012	Change	
	RMB million	*RMB million*	*RMB million*	Change %
Non-current assets	**1,872.8**	1,421.2	+451.6	+31.8
Current assets	**10,176.6**	8,974.5	+1,202.1	+13.4
Current liabilities	**8,693.7**	7,604.2	+1,089.5	+14.3
Non-current liabilities	**385.8**	55.3	+330.5	+597.6
Net assets	**2,969.9**	2,736.2	+233.7	+8.5

As at 31 December 2013, the Group's total consolidated assets increased by RMB1,653.7 million or 15.9% to RMB12,049.4 million (2012: RMB10,395.7 million). The increase was mainly made in the current assets such as trade and other receivables (increased by RMB1,170.0 million) and non-current assets such as property, plant and equipment (increased by RMB460.9 million). Total consolidated liabilities of the Group as at 31 December 2013 amounted to RMB9,079.5 million

(2012: RMB7,659.5 million) and increased by RMB1,420.0 million or 18.5% as compared to that of 31 December 2012. The major liabilities increased in the period including current liabilities such as short-term bank loans (increased by RMB1,497.3 million), borrowings related to bills discounted with recourse (increased by RMB427.5 million) and non-current liabilities such as long term bank loans (increased by RMB172.2 million) and medium-term notes including accrued interests (increased by RMB154.6 million). The Group also repaid short-term notes during the year and reduced the total consolidated liabilities by RMB805.8 million.

As the Group recorded a net profit for the year, the Group's net assets increased by 8.5% or RMB233.7 million to RMB2,969.9 million at the end of 2013 (2012: RMB2,736.2 million).

Liquidity, financial resources and capital structure

The funding policy of the Group is to secure sufficient funding to meet its working capital requirements and to maintain smooth operations. The Group will also utilise different equity and debt instruments of different tenures to obtain funding from the capital and financial markets in Hong Kong or in the PRC to achieve these objectives.

As the principal operation and production base of the Group are located in the PRC, financial resources are centralised in the headquarters of the Group for efficient allocation. The Group also utilises different banking services and products provided by the financial institutions in the PRC and Hong Kong to facilitate its cash management and treasury activities.

The management, with the assistance of the Group's finance and treasury departments, will closely monitor the market conditions and the needs of the Group when implementing the Group's funding and treasury policies.

As at 31 December 2013, the Group had current assets amounted to RMB10,176.6 million (2012: RMB8,974.5 million) and current liabilities amounted to RMB8,693.7 million (2012: RMB7,604.2 million). The Group's working capital increased by RMB112.6 million or 8.2% from RMB1,370.3 million as at the end of 2012 to RMB1,482.9 million as at the end of 2013. Although the Group's current liabilities increased relatively faster, the current ratio remained at 1.2 times as at 31 December 2013.

The Group experiences a certain degree of seasonal fluctuations in its air-conditioning business. Accordingly, the Group's operations, including its sales, production, working capital and operating cashflow, are closely related to seasonal factors. Demands for air-conditioners are usually higher during summer each year. In order to facilitate production prior to the domestic peak season and to meet the overseas orders, the Group normally experiences temporarily higher funding requirements in the middle and at the end of each year.

In recent years, the Group has made several investments in connection with the vertical integration of its production line. Accordingly, debentures and borrowings of longer tenure matching with the project period were sought for from the banks to serve this purpose.

In 2013, the Group had obtained funding for its business operation by obtaining bank loans and issuing debentures. As at 31 December 2013, the balances of short-term and long-term bank loans utilised by the Group were RMB3,018.4 million and RMB172.2 million respectively (2012: RMB1,521.1 million and nil respectively). Short-term loans increased by RMB1,497.3 million or 98.4% and the long-term borrowings were newly drawn this year. The bank loans were used for working capital purposes, majority of the loans are charged at fixed interest rates, repayable within one year, and are made and repaid in Renminbi. In May 2013, the Group also issued medium-term notes in an aggregate principal amount of RMB150 million in the PRC. As at the end of the reporting period, the Group had long-term debentures of approximately RMB154.6 million outstanding.

The gearing ratio (calculated as interest-bearing loans and other borrowings to total assets) of the Group increased to 27.8% as at 31 December 2013 (2012: 22.4%) because the Group's total borrowings increased relatively faster.

The Group had rearranged the combinations of its borrowings by obtaining bank loans which are denominated in foreign currency and offered at lower lending rates during the year. Both short-term and long-term borrowings had been used and provided the Group with a better mix of debt financing to fund its business operation. As such, the Group effectively cut its finance cost by 16.9% or RMB44.3 million in 2013. Ability of the Group to service finance costs, as indicated by interest cover, improved during the reporting period. Since the Group had improved its net profit and reduced its finance costs substantially during the year, interest cover of the Group increased to 2.3 times for the year ended 31 December 2013 as compared to 1.5 times for the same period in 2012.

During the year, the Group had entered into certain foreign currency forward contracts and derivative financial instruments to hedge against part of its exposure on potential variability of foreign currency risk. The net financial exposure of the Group to these foreign currency financial instruments was approximately RMB59.5 million (2012: RMB31.9 million) as at the year end of 2013.

As at 31 December 2013, the Company had issued share capital of approximately RMB71.9 million and 8,434,178,000 shares in issue and all of the issued shares were ordinary shares. Since the Group had recorded a net profit for the period, the shareholders' equity increased to RMB2,969.9 million as at 31 December 2013 (2012: RMB2,736.2 million).

Other than the above, there were no other equity or debt instruments issued by the Company during the reporting period and at the end of 2013.

Cash flows

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Operating cash flows	**554.2**	522.9
Movements in working capital and tax paid	**(872.4)**	662.0
Net cash (used in) from operating activities	**(318.2)**	1,184.9
Net cash used in investing activities	**(599.8)**	(263.8)
Net cash from (used in) financing activities	**750.7**	(546.5)
Net (decrease) increase in cash and cash equivalents	**(167.3)**	374.6
Cash and cash equivalents at 31 December	**756.6**	923.9

For the year ended 31 December 2013, the Group generated operating cash flows of RMB554.2 million (2012: RMB522.9 million). The Group financed its working capital by internally generating cash flow, bank borrowings and debentures. During the year, the Group increased its working capital requirement, especially in trade and other receivables and payments to reduce trade and other payables. By discounting some of the bills receivables to banks, the Group obtained cash for working capital. In total, the Group used cash of RMB318.2 million for the operating activities (2012: net cash inflow of RMB1,184.9 million). The Group also raised net borrowings of RMB1,619.5 million from banks and issuance of medium-term notes amounting to RMB150 million during the year. As a result, net cash generated from financing activities amounted to RMB750.7 million (2012: net cash outflow of RMB546.5 million). Part of the cash generated was used to finance the Group's working capital including trade and other receivables during the year. The Group also applied RMB599.8 million (2012: RMB263.8 million) of the cash generated for its investing activities including purchase and deposits paid on acquisition of property, plant and equipment for the future business expansion and development of the Group.

As a result of the foregoing, the Group's cash balances decreased by RMB167.3 million during the year ended 31 December 2013 (2012: net cash inflow of RMB374.6 million) and bank balances and cash amounted to RMB756.6 million at the end of 2013 (2012: RMB923.9 million). Majority of the bank balances and cash were denominated in Renminbi and certain amounts were denominated in US dollars and Hong Kong dollars.

Material acquisitions and disposals, significant investments

On 20 February 2013, a wholly-owned subsidiary of the Company, Chigo (Hong Kong) Investment Limited ("**Chigo Hong Kong**") entered into a sale and purchase agreement with the controlling shareholder of the Company, Chigo Group Holding Limited ("**Chigo Group Holding**") pursuant to which Chigo Hong Kong has conditionally agreed to acquire 100% equity interest in a company,

廣東志高科創銅業有限公司 (Guangdong Chigo Kechuang Copper Co., Limited) ("**Kechuang Copper**") which was then wholly-owned by Chigo Group Holding at a consideration of RMB38 million. The completion of the transaction is conditional upon, among others, the satisfaction of necessary legal procedures on equity transfer arrangement under respective PRC laws.

Kechuang Copper is registered as an entity that is principally engaged in the manufacturing and sale of copper products. On 20 February 2013, Kechuang Copper's major assets were land use rights and construction in progress with no operation commenced. The Directors are in the opinion that the acquisition of Kechuang Copper will (i) enable the Group to further vertically integrate its production line and maintain its leading role in the air-conditioning industry; (ii) secure a stable supply of core raw material and component to the Group and enhance business growth of the Group in the future; and (iii) provide room for the Group to control production cost and process and in turn enhance its operation yield and efficiency.

The abovementioned acquisition was completed in April 2013 and Kechuang Copper had yet to commence operation during the year ended 31 December 2013.

Other than the above, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies and the Group did not hold any significant investments during the reporting period.

Charge on assets

As at 31 December 2013, certain bank deposits of the Group in an aggregate carrying amount of approximately RMB1,111.9 million (2012: RMB946.9 million) were pledged to certain banks for securing the banking facilities granted to the Group.

Exposure to fluctuations in exchange rates

During the year ended 31 December 2013, approximately 44.8% of the Group's sales were denominated in currencies other than Renminbi, predominantly the US dollar, whilst most of the costs and expenses incurred by the Group were denominated in Renminbi. In this regard, the Group may be exposed to foreign currency risk. As the Group had already entered into certain foreign currency forward contracts and derivative financial instruments and the exchange rate of Renminbi against the US dollars was only subject to limited fluctuation during the reporting period, the Directors are of the view that the Group's exposure to foreign currency risk was not significant.

During and as at the end of the reporting period, most of the assets and liabilities of the Group were denominated in Renminbi. The Directors believe that the Group's exposure to exchange rate fluctuations is minimal in this aspect.

The Group had entered into certain copper future contracts with net settlement during the year ended 31 December 2013 for the purposes of hedging against part of its risk on the fluctuation of copper price and monitoring closely the trend of market price of copper. As at 31 December 2013, there was no copper future contract outstanding.

Other than the copper future contracts, foreign currency forward contracts and derivative financial instruments entered into by the Group, the Group did not have any other financial instruments used for hedging purpose during the year ended 31 December 2013. The management of the Group will monitor foreign currency and copper price exposures from time to time and will consider further hedging should the need arise.

Capital commitments

As at 31 December 2013, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB78.9 million (2012: approximately RMB37.9 million). The Group expects that the capital commitments will be funded by internal resources and/or external finance from financial institutions.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2013.

Employees and Remuneration

As at 31 December 2013, the Group employed 13,802 employees (2012: 14,066 employees). The employees of the Group are remunerated based on their performance, experience and prevailing industry practices. Compensation packages are reviewed on a yearly basis. The Group also provides its employees with welfare benefits including medical care, meal subsidies, education subsidies and housing etc.

In order to attract, motivate and retain high calibre personnel, the Group also has a share option scheme in place in which the employees and directors of the Group are entitled to participate.

Outlook and Future Plans

Guangdong Chigo Air-conditioning Co., Limited established in 1994. 2014 marks the 20th anniversary of the opening of CHIGO and the management believes it will be a start of a new era of the Group's future development.

Going into 2014, the economic slowdown of emerging markets and the recent fluctuations of Renminbi has brought a little uncertainty to the prospects of the air-conditioning industry. The possible depreciation of Renminbi and decline in material costs will, however, benefit export of air-conditioners and improve profit margin. For domestic sales, with the continuous demand for product upgrade and new housing completions, air-conditioners sales are expected to sustain a steady growth in the coming year.

Enjoying the success of its steady progressive strategy in 2013, the Group had not only consolidated its sales volume, but also improved operating efficiency and profitability, and upgraded its production capacity. The management also believes that intelligent home appliances is the future trend and this will be the Group's focus in its business development in the coming year. Having established one of the industry's best and creative R&D team and with its complete integration of production facilities, the Group will leverage these competitive advantages to further enhance its business operations in the future. The major plan of the Group include:

- ***Strengthen the sales of "iCongo 雲空調"***

  "iCongo 雲空調" is a revolutionary air-conditioning product combining advanced smart technology with air-conditioner. "iCongo 雲空調" has been launched into the market since early 2012 and is highly valued by the customers. In 2014, the Group plans to further promote and increase the sales of this high-end product.

- ***Increase commercial air-conditioners sales***

  The Group's commercial air-conditioning unit achieved brilliant results in 2013. The management believes that there is a huge market for commercial air-conditioning products. With the new production facility and growing popularity of CHIGO's commercial air-conditioning products, the Group will invest more resources in the commercial sales and expect to increase the proportion of sales from this business segment.

- ***Launch own compressors***

  The Group is ready to have its self-manufactured compressors installed in its air-conditioning products. A compressor is one of the advanced components in an air-conditioner with a relatively high profit margin. The management expects that self-manufactured compressors would further improve the cost efficiency and increase profitability of the Group.

- ***Develop terminal and mobile marketing***

  The Group reviews from time to time the effectiveness of its distribution channels. In order to reduce unnecessary links and optimize its distribution hierarchy, the Group has plans to develop terminal marketing strategy aiming for selling air conditioning products to the final consumers. The management believes that on top of the existing distribution channel, terminal marketing would further enlarge the sales network of the Group and speed up the transfer of market information between links. The management also has the view that mobile devices are already an integral part of human life and plans to leverage mobile marketing to promote products and brand awareness. The Group expects that these marketing strategies would require building an efficient sales team but would not involve substantial capital expenditures.

OTHER INFORMATION

Final Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: nil).

Annual General Meeting

The annual general meeting of the Company will be held on Tuesday, 27 May 2014. The notice of the annual general meeting will be published and despatched to the shareholders in due course.

Closure of Register of Members

The Company's Register of Members will be closed from Monday, 26 May 2014 to Tuesday, 27 May 2014 (both dates inclusive), during such period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, unregistered holders of shares of the Company should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration no later than 4:30 p.m. on Friday, 23 May 2014.

Purchase, Sale or Redemption of Listed Shares of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the shares of the Company during the year ended 31 December 2013.

Corporate Governance

The Company has adopted its corporate governance practices which are in line with the code provisions contained in the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2013, the Company has complied with the code provisions set out in the CG Code except for the deviation from Code Provision A.2. of the CG Code.

Code Provision A.2. of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the year ended 31 December 2013, Mr. Li Xinghao acted both as Chairman and Chief Executive Officer (the "**CEO**") of the Company.

The responsibilities of Chairman and CEO of the Company have been clearly established and set out in writing. Chairman of the Board will be responsible for effective running of the Board and the management of the Board's affairs. CEO will be primarily responsible for the formulation of the Group's business and development strategies.

Mr. Li is the founder of the Group and has over 20 years of experience in the air-conditioning industry. The Directors believe that Mr. Li is a good leader to lead the Board and vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. As such, it is beneficial to the business prospects of the Company.

The Directors will continue to review the effectiveness of the corporate governance structure of the Group and assess whether changes, including the separation of the roles of Chairman and CEO, are necessary.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code regarding securities transactions by the Directors (the "**Own Code**"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code and the Own Code. All Directors have confirmed their compliance during the year with required standards set out in the Model Code and the Own Code.

Review of the Annual Results

The audit committee (the "**Audit Committee**") of the Company comprises three independent non-executive Directors, namely, Messrs. Fu Xiaosi, Zhang Xiaoming and Wan Junchu. Mr. Fu Xiaosi is the chairman of the Audit Committee.

The Company's annual results for the year ended 31 December 2013 have been reviewed by the Audit Committee with the management of the Company.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as of the date of this announcement, there is sufficient public float or not less than 25% of the Shares are in the hands of the public as required under the Listing Rules.

Publication of the Annual Results and Annual Report

The electronic version of this announcement will be published on the Stock Exchange's website (www.hkexnews.hk), the Company's official website (www.china-chigo.com) and at irasia.com (www.irasia.com/listco/hk/chigo/index.htm). The annual report of the Company for the year ended 31 December 2013 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and published on the aforementioned websites and webpage in due course.

Appreciation

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners, bankers and auditors for their support to the Group throughout the period.

By Order of the Board
Chigo Holding Limited
Zheng Zuyi
Vice Chairman

Hong Kong, 26 March 2014.

As at the date of this announcement, the executive Directors are Li Xinghao, Zheng Zuyi, Ding Xiaojiang and Huang Xingke, and the independent non-executive Directors are Wan Junchu, Zhang Xiaoming and Fu Xiaosi.